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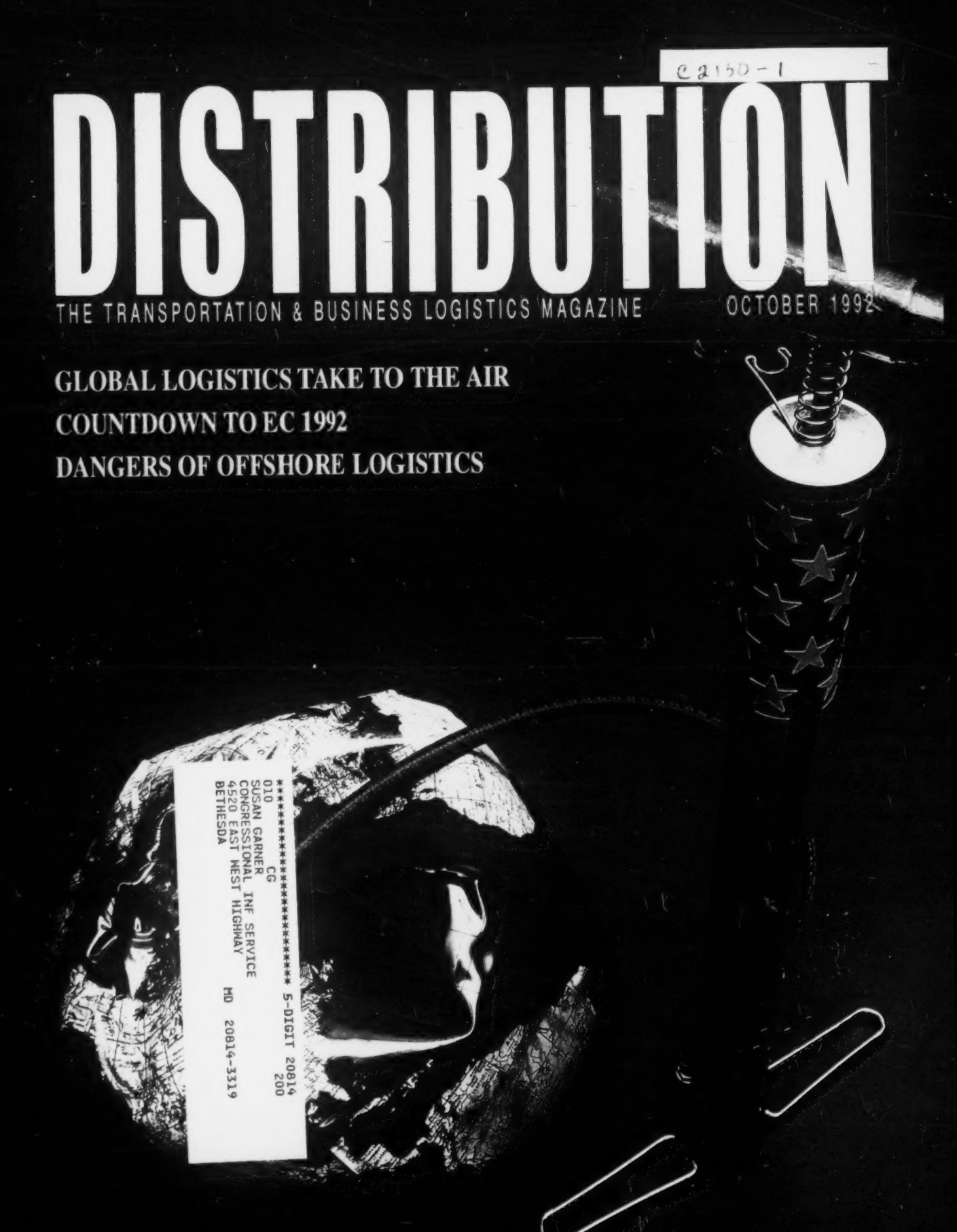
THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE

OCTOBER 1992

GLOBAL LOGISTICS TAKE TO THE AIR

COUNTDOWN TO EC 1992

DANGERS OF OFFSHORE LOGISTICS



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THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE

OCTOBER 1992 VOL. 91, NO. 10

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NEXT MONTH

TRANSPORTATION EXECUTIVE OF THE YEAR

Thomas A Foster, Esq

LET'S VOTE FOR THE LOGISTICS CANDIDATE

George Bush and Bill Clinton have opposite views on transportation and trade policy, so think long and hard about which candidate shares your vision of how logistics should be run in this country.

Ready or not, we are going to elect a president on November 3. Each of us has to sort through the campaign rhethoric, cheap shots and hollow promises to find a reason to vote for George Bush or Bill Clinton. Perhaps we should vote for the candidate that is most likely to help the logistics industry and all of us who make our living managing and moving the flow of commerce in this country.

Who is this logistics candidate?

President Bush's policies for the past three-and-a-half years have been consistently deregulatory and market-driven. At the Interstate Commerce Commission, his appointees have pushed for deregulatory policies that benefit shippers and market-wise carriers. Legislatively, he has failed to have any bills passed that would help shippers or our embattled merchant marine. Bush deserves some credit for passage of this year's highway bill, which will invest $151 billion in much-needed infrastructure improvements (although much of this money will go to public transit and pork-barrel projects).

The Administration's boldest initiative has been the negotiation of the North American Free Trade Agreement, which if ratified, promises to boost the economy and create new jobs through increased trade. Job prospects in transportation and logistics would especially benefit from NAFTA.

Bill Clinton's logistics policies are not as well defined, but according to one recent article, he says he would "make up for lost time" at the ICC by reversing the trend toward deregulation. Based on similar statements made by Clinton and his election team, we could expect strong regulatory policies at other agencies including the FMC, DOT and EPA, and we could forget about any legislative attempts to further deregulate trucking or loosen up the Shipping Act. Carriers, especially U.S. flag ocean and air carriers, could expect more federal support and protection from foreign competition. Clinton has also promised to invest around $200 billion in the infrastructure, apparently funded by even higher fuel taxes, user fees and possibly punitive "carbon taxes", which are favored by his vice-presidential candidate, Al Gore.

Clinton has been intentionally vague about NAFTA and other trade issues. We have to assume he would be guided by the Democratic leadership and his union backers, who strongly oppose NAFTA and support more protectionism. These policies could hurt logistics jobs.

Take your choice.

Next month, after the people have spoken, we will look more closely at what the logistics industry can expect from the next administration.

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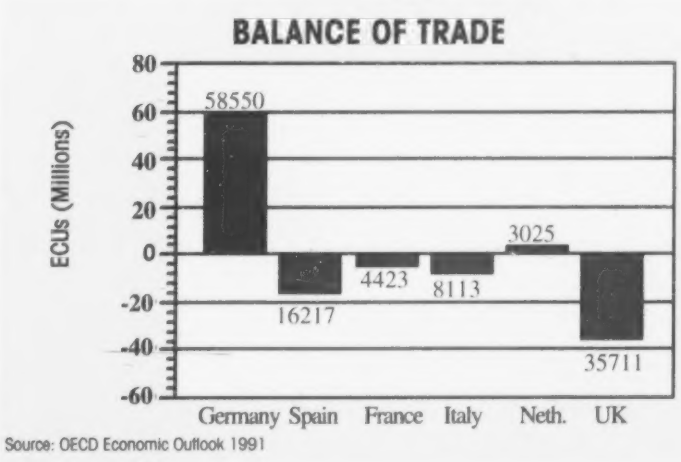
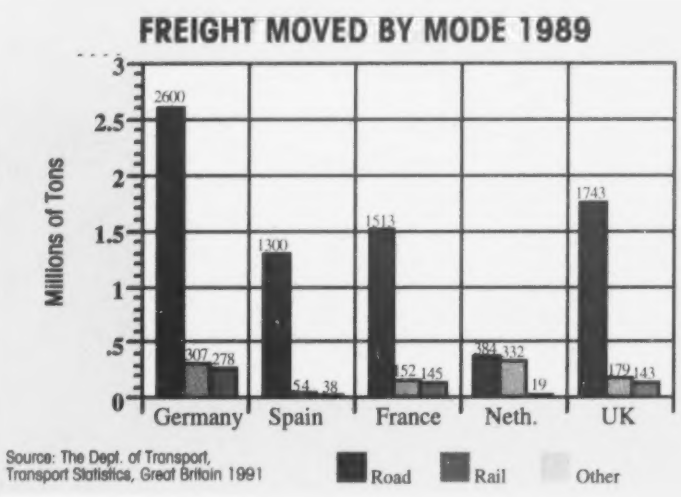
IS EUROPE READY FOR THE SINGLE MARKET?

Europeans—and U.S. firms doing business in Europe—have much to learn about handling the diverse logistics systems in the EC that are creating roadblocks on the path to a Single European Market.

BY HANS VAN DER HOOP,
CONTRIBUTING EDITOR



Source: OECD Economic Outlook 1991



Source: The Dept. of Transport, Transport Statistics, Great Britain 1991

The on-going European currency crisis and the near-defeat of the Maastrict Treaty by the French electorate show just how fragile the EC 1992 movement has become. Widely differing economic goals among the 12 European Community nations and a resurgence of nationalism threaten any smooth transition to a Single European Market.

The problems in the EC are not confined to politics and central bank policies. Differing logistics costs, practices and capabilities among the EC nations also are creating problems for companies attempting to set up Single Market manufacturing and distribution networks. The EC is still a long way from a highly integrated, seamless European logistics system.

These potentially disruptive differences in the performance of logistics systems throughout the EC were recently documented in a study prepared by the Institute of Logistics & Distribution Management, the accounting firm of Touche Ross, and the European Logistics Association. The report examines logistics practices in the major EC countries studying 800 companies in Germany, France, UK, Netherlands, Italy and Spain.

The study is the first one of its kind, and tries to identify how the logistics environment presently varies across Europe; what logistics' expenditure have in the major countries; and how logistics practice differs in these countries. These factors are directly dependent on population density, infrastructure, and economic viability.

continued

The researchers find an interesting correlation between the density of population and the average distribution cost as a percentage of sales: the higher densities allow for lower distribution cost (*See page 6*). For example, the population density in the Netherlands is more than 360 people per sq. km., while logistics costs are around 5 percent of the cost of sales. In France, however, population density is only around 100 people per sq. km. and logistics costs exceed 7 percent. But the correlation is not perfect. Spain has only 77 people per sq. km. and logistics costs are close to those in the Netherlands.

Companies can enhance their logistics networks by adopting "best practices."

A long-term problem for transportation and distribution in the EC is the varying levels of infrastructure development. For example, the ability of a country to move goods by truck and rail can be determined by looking at the density of road and rail as measured by kilometers of highways and track per 1,000 sq. km.

In truck situations, the Netherlands has the highest road density in the EC with 2,474 km. of highway per 1,000 km. Germany is not far behind with 2,010. But Spain has only 303 km. of roads per 1,000 sq. km., Italy has only 1,006 km., France 1,481 and the UK with 1,553. These differences influence how well each country will handle increasing demands on logistics in the future.

In the case of rail, Germany's coverage is nearly double that of most other countries. It has 121 km of rail per 1,000 sq. km. while France, Italy, the Netherlands and the UK have between 63 and 69 km of rail per 1,000 sq. km. Spain has only 28. In addition, the entire EC only moves a total of 8.7 percent of total tonnage. Part of the reason for this relatively low percentage is that the national railroads continue to emphasize passenger traffic. Multimodal or combined transport systems (European version of piggyback) book an even lower 2 percent of total freight carried in Europe. Clearly there is a real opportunity for growth, provided that the national railways can agree on a common system.

The significance of these numbers is that a truck or rail-oriented distribution strategy that will work well in some EC countries, will run into problems in Spain and Italy. And since highway and rail infrastructure take years to develop, these marked differences

continued

BREAKDOWN OF TRANSPORT EXPENDITURE

(percent)

	Germany	Spain	France	Italy	Neth.	UK	Overall
Labor	48.6	34.0	31.8	41.2	26.0	39.0	36.8
Staff	5.9	18.8	12.6	18.2	14.1	7.0	12.8
Garage	2.5	0.9	0.5	3.8	9.0	17.0	5.6
Maint.	10.4	6.0	17.6	7.5	8.7	N/A	8.4
Depn.	17.0	8.4	1.2	8.8	6.3	12.0	9.0
Fuel	9.5	7.2	9.6	19.3	24.3	19.0	14.8
Ins./Lic.	5.9	3.5	15.7	1.0	7.6	3.0	6.0
Hire	0.2	21.2	11.0	0.2	4.0	3.0	6.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

BREAKDOWN OF STORAGE EXPENDITURE

(percent)

	Germany	Spain	France	Italy	Neth.	UK	Overall
Labor	42.7	39.5	52.1	42.1	35.0	44.0	42.6
Staff	18.1	23.1	16.8	22.9	12.1	10.0	17.2
Rent	8.8	11.8	3.7	4.7	13.4	16.0	9.8
Power	7.7	2.8	9.2	4.1	6.8	6.0	6.1
Maint.	7.2	4.4	4.6	5.8	6.8	3.0	5.3
Security	1.6	1.7	5.1	1.3	3.7	3.0	2.7
Pallets	2.7	1.8	2.8	4.2	6.3	4.0	3.6
Depn.	7.2	12.7	4.1	10.8	8.0	7.0	8.3
Insurance	3.3	1.7	0.7	4.0	4.5	3.0	2.9
Hire	0.7	0.5	0.9	0.1	3.3	4.0	1.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

are likely to cause distribution problems for years to come.

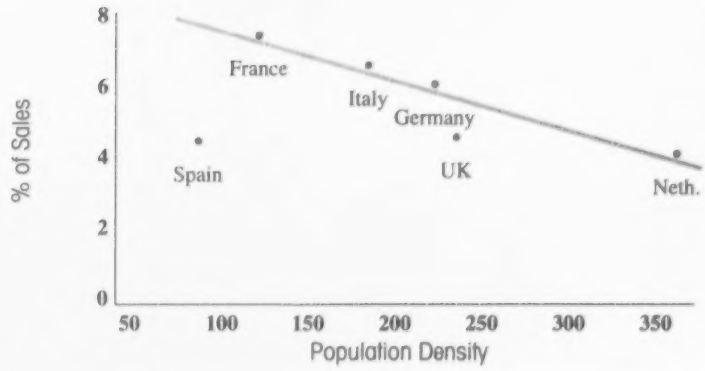
In the economic area, one of the factors influencing logistics systems is the intra-European trade balance of each country (*See page 2*). The substantial trade imbalances for Germany, Spain and the U.K. manifest themselves in unequal flows of goods to and from these countries, translating into difficulties in finding return loads, and therefore higher rates. Wages make up between 30 percent and 50 percent of total distribution costs. The report points out that wage rates vary from ECU 5.8 in France to ECU 9.7 in Germany (One ECU = $1.25).

The logistics environment is measured by rental costs and vehicle operations price. Rental values associated with warehouse facilities can represent up to 20 percent of the cost of running a warehouse (*See page 4*). The researchers find that this element, combined with the transport rate levels, greatly influence the existing differences in logistics structures in the various countries. Transport rates are largely influenced by great variations in fuel rates and taxes (*See page 4*). Diesel fuel prices show a difference of 18 percent before government taxation and 45 percent after it.

The European logistics environment depends on population density, infrastructure, and economic viability.

Total logistics expenditure by country ranges from 4.62 percent of sales in the Netherlands to 7.22 percent in France. The report suggests that these differences in expenditures can be explained by the variations in population density and infrastructure, fuel and vehicle taxation rates, and wage rates. Taxation rates and the infrastructure will be brought more in line within the confines of EC policies.

COMPARISON OF LOGISTICS COSTS AND POPULATION DENSITY



The report also includes different logistics cost figures produced by the New Jersey-based consulting firm of Herbert W. Davis and Co. According to these cost figures, which are uniformly higher than the ILDM study figures, the UK reported the lowest total logistics costs at 6.79 percent of sales. Germany's logistics costs of 10.35 percent of sales were the second highest because of its highly regulated transportation system which protects its carriers from rate and entry competition (*See Logistics Benchmarks, page 88*).

The report also studies three specific elements of logistics practice: the use of third-party contractors, the use of computer systems, and service level specification in contracting. Third party contracting is based on sharing contractors' facilities and resources with other users, while dedicated contracting is still in the minority.

Computer use is highest in commercial functions, like order processing and inventory management. They are used less for operational functions, such as demand forecast, DRP, and vehicle scheduling. In general, French, British and Italian companies make less use of computer systems for logistics than their Spanish and Dutch counterparts.

The report concludes that a wide variation in logistics practice and costs exist around Europe because of economic, social and demographic differences among the countries. The clear implication is that companies wishing to establish a truly European logistics network will have to take these differences into account as they plan their networks. They should learn from alternative approaches and adopt "best practices" wherever possible.

A LOOK AT EUROPEAN LOGISTICS COSTS

As more U.S. companies set up European distribution networks in the Single Market, they learn a valuable lesson: Logistics is done differently in Europe.

These differences are cultural, practical, geographical, and deomographical. U.S. companies must understand the differences before they can operate an efficient distribution system in Europe.

Until a true Single Market exists, smart logistics people are planning their networks to meet future European business patterns. Plants and warehouses are handling large regions of the Continent rather than just a single country. Manufacturers are sourcing from all points in Europe and beyond. Carriers and logistics providers are offering broad geographic coverage.

A look at European logistics costs, gathered by the consulting firm of Herbert W. Davis and Co., based in Engelwood Cliffs, N.J., shows some of the important differences that now exist. The U.K., which has an excellent deregulated transportation market, reports the lowest total logistics costs at 6.79 percent of sales. France, which boasts wonderful computer systems for order entry and customer service, is at 7.29 percent of sales. Germany's logistics costs of 10.35 percent of sales are the highest in the EC because its regulated transportation system protects carriers from rate and entry competition.

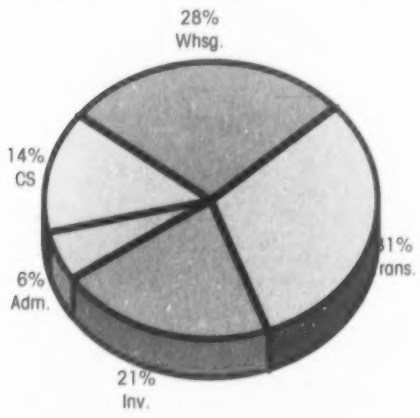
European logistics costs are higher than in the U.S.because European companies have treated each country as a separate market with separate production, sales and distribution systems. Among the penalties for this system has been higher transportation costs caused by border-crossing delays, congestion and stopoffs. The Single Market will eliminate border delays and allow Continent-wide transportation companies to offer better service at better rates, forcing costs to go down.

The Davis Database also shows that European logistics costs are different from those in the U.S., where transportation is the dominant component making up 39 percent of the total costs. In Europe, transportation makes up only 31 percent of total logistics costs. Warehousing takes up 28 percent of the European logistics budget, while it is only 23 percent in the U.S. These percentages are likely to align when Europeans start using transportation to eliminate the number of warehouses in their distribution networks.

DISTRIBUTION COST—PERCENT OF SALES

	Global	U.S.	Europe	France	Germany	UK	Neth.	Sweden
Transportation	3.00%	3.30%	2.53%	2.15%	5.81%	2.71%	1.91%	3.10%
Warehousing	2.15	2.07	2.29	2.08	2.21	1.62	3.04	3.65
Order Entry/ Customer Service	0.85	0.64	1.16	1.01	1.75	0.67	2.14	0.87
Administration	0.43	0.38	0.51	0.52	0.51	0.40	0.57	0.52
Inventory	1.90	2.00	1.76	1.62	0.82	1.43	2.37	2.95
Total	8.13%	8.18%	8.10%	7.29%	10.35%	6.79%	9.66%	11.02%

EUROPEAN COMPANIES



U.S. COMPANIES